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CITY OF POPLARVILLE, MISSISSIPPI

FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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SEPTEMBER 30, 2004**

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INTRODUCTORY SECTION

**CITY OF POPLARVILLE, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2004**

ELECTED OFFICIALS

Mayor
Aldersperson
Aldersperson
Aldersperson
Aldersperson
Aldersperson

Billy W. Spiers
Ronald Dunston
John A. Grant, Jr.
M.L. Knight
Anne Smith
Byron Wells

APPOINTED OFFICIALS

City Clerk and Tax Collector

Jody Stuart

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

January 19, 2005

Honorable Mayor and Members of the
Board of Alderpersons
City of Poplarville
Poplarville, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Poplarville, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Poplarville, Mississippi. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Poplarville, Mississippi, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City of Poplarville, Mississippi adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, for the year ended September 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2005, on our consideration of the City of Poplarville, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 10 and budgetary comparison information listed as Schedule 1 are not a required part of the basic financial statements but are considered supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and Members of the
Board of Alderpersons
City of Poplarville, Mississippi
Poplarville, Mississippi
January 19, 2005

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poplarville, Mississippi's basic financial statements. The introductory section and accompanying financial information listed as Schedules A and B in the table of contents are presented for purposes of additional analysis and are not required as part of the basic financial statements of the City of Poplarville, Mississippi. The introductory section and Schedules A and B have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

***City of Poplarville
200 Highway 26 East
Poplarville, MS 39470
(601)795-8161***

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Introduction

The following Management's Discussion and Analysis of the City of Poplarville, Mississippi's (the "City") activities and financial performance provides an introduction to the financial statements of the City for the fiscal year ended September 30, 2004. The information contained in this Management's Discussion and Analysis has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The components of the annual financial report include:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplementary Information (RSI)

The MD&A, a component of RSI, introduces the basic financial statements and provides an analytical overview of the City's financial activities. Because fiscal year ended September 30, 2004 is the first year in which the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, this MD&A does not provide comparisons with the previous year. Future reports will provide such comparisons.

Financial Highlights

- The assets of the City exceeded its liabilities at September 30, 2004 by \$5,053,280. Of this amount, unrestricted net assets of \$1,224,617 may be used to meet the government's ongoing obligations to citizens and creditors.
- The total net assets increased by \$227,864. Of this amount, \$232,019 was associated with business-type activities and there was a \$4,155 decrease with governmental activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,199,927, an increase of \$16,651 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,195,270, or 76% of total general fund expenditures.
- The City's total debt obligations decreased by \$186,495. However, the City obtained four new capital leases during 2004. The leases allowed the City to acquire a Massey Ferguson tractor and a Dodge Ram truck for the street department, two new Ford Crown Victoria police cars, and a Dodge Ram truck for use in water and sewer operations. All of the new leases mature within 36 months and each carries an interest rate between 2.79% and 3.04% per annum.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2004

Overview of the Financial Statements

The City's basic financial statements comprise the following elements:

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, court, public safety, highways and streets, public works and culture and recreation. The business-type activities of the City are comprised of water and sewer operations.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting not only to ensure and demonstrate compliance with finance-related legal requirements but also to help control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes, grants, and other money. All of the funds of the City can be divided into two categories:

- **Governmental funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are both considered to be major funds.

- **Proprietary Funds**

The City maintains one proprietary fund for water and sewer operations. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information for this fund is presented in the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2004

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Refer to Note 1 to the financial statements for more detailed information on the elements of the financial statements.

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net assets as of September 30, 2004, derived from the government-wide Statement of Net Assets.

Table 1: Condensed Statement of Net Assets As of September 30, 2004			
	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 1,258,244	\$ 208,126	\$ 1,466,370
Capital assets, net	1,283,198	6,033,002	7,316,200
Total assets	2,541,442	6,241,128	8,782,570
Other liabilities	100,687	347,319	448,006
Long-term liabilities	171,188	3,110,096	3,281,284
Total liabilities	271,875	3,457,415	3,729,290
Net assets:			
Invested in capital assets, net of related debt	1,090,448	2,692,783	3,783,231
Restricted	-	45,432	45,432
Unrestricted	1,179,119	45,498	1,224,617
Total net assets	\$ 2,269,567	\$ 2,783,713	\$ 5,053,280

At September 30, 2004, the City's assets exceeded liabilities by \$5,053,280. By far, the largest portion of the City's net assets (75%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The City uses these capital assets to provide services to the citizens and businesses in the City; consequently, these net assets are not available for future spending. A portion of the net assets is restricted to comply with covenants on water and sewer revenue bonds. The remaining portion of net assets is unrestricted, which can be used to finance government operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Government-wide Financial Analysis (Continued)

Table 2 below presents the City's condensed statement of activities for the fiscal year ended September 30, 2004, as derived from the government-wide Statement of Activities.

Table 2: Condensed Statement of Activities For the Year Ended September 30, 2004			
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Fees, fines and charges for services	\$ 367,994	\$ 822,044	\$ 1,190,038
Operating grants and contributions	80,226	-	80,226
Capital grants and contributions	-	129,192	129,192
Total program revenues	448,220	951,236	1,399,456
General revenues			
Property taxes	567,833	-	567,833
Sales taxes	498,015	-	498,015
Interest earnings	14,609	302	14,911
Loss on retirement of assets	(46,617)	(37,433)	(84,050)
Other	12,907	20,355	33,262
Total general revenues	1,046,747	(16,776)	1,029,971
Total revenues	1,494,967	934,460	2,429,427
Program expenses			
General government	274,390	-	274,390
Court	52,324	-	52,324
Public safety	712,930	-	712,930
Highways and streets	280,269	-	280,269
Public works	100,855	-	100,855
Culture and recreation	28,235	-	28,235
Miscellaneous	43,344	-	43,344
Interest and fiscal charges	6,775	-	6,775
Water and sewer	-	702,441	702,441
Total program expenses	1,499,122	702,441	2,201,563
Change in net assets	(4,155)	232,019	227,864
Beginning net assets, restated	2,273,722	2,551,694	4,825,416
Ending net assets	\$ 2,269,567	\$ 2,783,713	\$ 5,053,280

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2004

Government-wide Financial Analysis (Continued)

Governmental Activities

Governmental activities decreased the City's net assets by \$4,155.

Business-Type Activities

Business-type activities increased the City's net assets by \$232,019. Key elements of this increase are:

- The City increased water and sewer rates each by \$1.35 per month for customers inside the City limits and by \$2.70 per month for customers living outside the City. Due to the varying rates in place for residential customers, commercial customers, customers inside the City, and customers outside the City, the resulting increase was somewhere between 7.5% and 12%.
- Also, the City received approval from the United States Department of Agriculture (USDA) Rural Development for a loan/grant award to pay for the construction of the new City water well. As of September 30, 2004, the City had incurred \$287,093 in construction costs and accrued a receivable pertaining to the 45% grant award in the amount of \$129,192.

Financial Analysis of the City's Funds

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined unreserved ending fund balance of \$1,199,927.

General Fund

Fund balance at September 30, 2004 totaled \$1,195,270, an increase of \$18,862 during the fiscal year. The increase is the result of:

- The tax millage for the General Fund increased by one mill from forty-six to forty seven mills which, along with new construction, increased tax receipts by approximately \$45,000 over the prior year.
- Sales tax collections for the year ended September 30, 2004 were about \$22,000 greater than in 2003.
- Expenses also increased over the prior year which offsets the effect of the two major revenue increases noted above.

Debt Service Fund

The debt service fund had a fund balance of \$4,657 at September 30, 2004, a decrease of \$2,211 from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2004

Financial Analysis of the City's Funds (Continued)

Proprietary Fund

The City's proprietary fund, the Water and Sewer Fund, reported net assets of \$2,783,713, an increase of \$232,019 during the fiscal year. The City's intention for this Fund is for it to be self-sufficient but not to accumulate an excessive amount of assets as a result of its operations as shown by unrestricted net assets of only \$45,498. In the current year, the Water and Sewer Fund increase of net assets of \$232,019 was due to the rate increase and accruing of a receivable from the USDA noted on the prior page.

Budget Variances in the General Fund

Differences in the original budget and the final amended budget can be briefly summarized as follows:

- \$15,590 increase in intergovernmental revenues due to Homeland Security grant and Local Law Enforcement Block Grant (LLEBG) received during 2004
- \$16,641 increase in general government expenditures primarily due to roof repairs at City Hall
- \$2,198 increase in court
- \$62,112 increase in public safety primarily related to construction of new communications tower, grant awards for equipment purchases from LLEBG and the Department of Homeland Security, and slight increase in personnel costs
- \$30,336 increase in highways and streets pertaining to purchase of miscellaneous equipment and slight increase in personnel costs
- \$660 increase in public works
- \$436 increase in miscellaneous expenditures
- \$319,777 increase in interfund transfers relating to general fund loaning money to the water and sewer fund to pay for water well construction until financing for the project could be obtained from the USDA

The net result of these amendments created the need to draw down \$416,570 of existing fund balance not appropriated with the original adopted budget.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2004, the City reported \$1,283,198 in net capital assets for governmental activities and \$6,033,002 in capital assets for business-types activities. Major capital asset events during the year included the following:

- The City had a communications tower constructed for the fire and police departments costing \$22,636.
- The City acquired the following vehicles and equipment through capital leases during the year: (2) 2004 Ford Crown Victoria's for the police department costing \$40,082, a Massey Ferguson tractor for the streets department costing \$14,870, a 2004 Dodge Ram for the streets department at a cost of \$15,113, and another 2004 Dodge Ram for the water and sewer department costing \$15,113.
- The City purchased land costing \$10,000 to be used for construction of the new Cumberland Street water well.
- The City had incurred \$277,093 in costs related to the construction of the new water well as of September 30, 2004.
- The City also purchased an 8' by 18' enclosed cargo trailer for the fire department with funds received from the Homeland Security Grant.

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2004

Capital Asset and Long-Term Debt Activity (Continued)

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$185,217 in outstanding governmental debt and \$3,340,218 in outstanding proprietary debt. Refer to Note 6 to the financial statements for additional information on the City's long-term debt and other liabilities.

Economic Conditions and Outlook

Property tax collections have been steadily increasing over the past several years. Sales tax collections have been increasing steadily as well. These factors were considered in preparing the City's budget for the 2005 fiscal year.

In the 2005 budget, the City raised the millage rate on debt service from two to four mills. This increase was due to the City's plans to purchase a new fire truck in 2005 with debt financing and through capital lease financing to acquire several new police cars and two new trucks for the streets department.

Contact the City's Financial Management

This financial report is designed to provide a general overview of the City of Poplarville for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Clerk, Jody Stuart, at 200 Highway 26 East, Poplarville, Mississippi 39470.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF POPLARVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 36,253	\$ 100	\$ 36,353
Pooled cash and cash equivalents	304,285	209,188	513,473
Investments	400,000	-	400,000
Receivables:			
Property taxes, net	6,151	-	6,151
Sales tax	85,246	-	85,246
Franchise taxes	27,728	-	27,728
Accounts, net	1,540	126,002	127,542
Interest	260	-	260
Due from other governments	-	129,192	129,192
Internal balances	384,630	(384,630)	-
Prepaid expenses	12,151	2,029	14,180
Restricted assets:			
Cash and cash equivalents	-	121,048	121,048
Other assets, net	-	5,197	5,197
Capital assets:			
Land and construction in progress	467,053	312,008	779,061
Building and improvements, net	359,982	5,636,636	5,996,618
Machinery and equipment, net	118,177	69,925	188,102
Vehicles, net	255,189	-	255,189
Equipment under leases, net	14,513	-	14,513
Vehicles under leases, net	68,284	14,433	82,717
Total assets	2,541,442	6,241,128	8,782,570
LIABILITIES			
Accounts payable	21,153	36,910	58,063
Retainage payable	-	24,047	24,047
Accrued liabilities	31,665	10,881	42,546
Notes payable, current	14,368	192,714	207,082
Capital leases, current	28,002	4,973	32,975
Compensated absences, current	5,499	2,178	7,677
Payable from restricted assets:			
Customer deposits	-	43,180	43,180
Bond payable, current	-	32,436	32,436
Notes payable, noncurrent	105,681	2,670,281	2,775,962
Bond payable, noncurrent	-	432,507	432,507
Capital leases, noncurrent	37,166	7,308	44,474
Compensated absences, noncurrent	28,341	-	28,341
Total liabilities	271,875	3,457,415	3,729,290
NET ASSETS			
Invested in capital assets, net of related debt	1,090,448	2,692,783	3,783,231
Restricted, bond covenants	-	45,432	45,432
Unrestricted	1,179,119	45,498	1,224,617
Total net assets	\$ 2,269,567	\$ 2,783,713	\$ 5,053,280

The accompanying notes are an integral part of these financial statements.

CITY OF POPLARVILLE, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental:						
General government	\$ 274,390	\$ 142,930	\$ 8,508	\$ -	\$ (122,952)	\$ (122,952)
Court	52,324	-	-	-	(52,324)	(52,324)
Public safety	712,930	105,668	51,288	-	(555,974)	(555,974)
Highways and streets	280,269	-	-	-	(280,269)	(280,269)
Public works	100,855	119,396	-	-	18,541	18,541
Culture and recreation	28,235	-	-	-	(28,235)	(28,235)
Miscellaneous	43,344	-	20,430	-	(22,914)	(22,914)
Interest and fiscal charges	6,775	-	-	-	(6,775)	(6,775)
Total governmental activities	1,499,122	367,994	80,226	-	(1,050,902)	(1,050,902)
Business-type:						
Water and Sewer	702,441	822,044	-	129,192	\$ 248,795	248,795
Total City of Poplarville, Mississippi	\$ 2,201,563	\$ 1,190,038	\$ 80,226	\$ 129,192	(1,050,902)	(802,107)
General revenues:						
Property taxes, levied for general purposes					567,833	567,833
Intergovernmental revenues - sales tax					498,015	498,015
Interest earnings					14,609	14,911
Miscellaneous					12,907	33,262
Loss on retirement and/or sale of assets					(46,617)	(84,050)
Total general revenues					1,046,747	1,029,971
Change in net assets					(4,155)	227,864
Net assets-beginning, restated					2,273,722	4,825,416
Net assets-ending					\$ 2,269,567	\$ 5,053,280

The accompanying notes are an integral part of these financial statements.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**CITY OF POPLARVILLE, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004**

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 36,253	\$ -	\$ 36,253
Pooled cash and cash equivalents	299,628	4,657	304,285
Investments	400,000	-	400,000
Receivables:			
Property taxes, net	6,151	-	6,151
Sales tax	85,246	-	85,246
Franchise taxes	27,728	-	27,728
Accounts, net	1,540	-	1,540
Interest	260	-	260
Due from other funds	252,503	-	252,503
Advances to other funds	132,127	-	132,127
Prepaid expenses	12,151	-	12,151
	<u>1,253,587</u>	<u>4,657</u>	<u>1,258,244</u>
Total assets	<u>\$ 1,253,587</u>	<u>\$ 4,657</u>	<u>\$ 1,258,244</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 21,153	\$ -	\$ 21,153
Accrued liabilities	31,665	-	31,665
Compensated absences	5,499	-	5,499
	<u>58,317</u>	<u>-</u>	<u>58,317</u>
Total liabilities	<u>58,317</u>	<u>-</u>	<u>58,317</u>
Fund balances:			
Unreserved	<u>1,195,270</u>	<u>4,657</u>	<u>1,199,927</u>
Total liabilities and fund balances	<u>\$ 1,253,587</u>	<u>\$ 4,657</u>	<u>\$ 1,258,244</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF POPLARVILLE, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

Total governmental funds balance (Exhibit C) **\$ 1,199,927**

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Governmental capital assets	\$ 1,689,765	
less: accumulated depreciation	<u>(406,567)</u>	
		1,283,198

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Governmental notes payable and capital leases payable	(185,217)	
Compensated absences	<u>(28,341)</u>	

Net assets of governmental activities (Exhibit A) **\$ 2,269,567**

The accompanying notes are an integral part of these financial statements.

CITY OF POPLARVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 551,138	\$ 16,695	\$ 567,833
Franchise	115,767	-	115,767
Licenses and permits	27,163	-	27,163
Intergovernmental:			
Sales tax	498,015	-	498,015
Local	18,221	-	18,221
State	55,325	-	55,325
Federal	24,901	-	24,901
Charges for services	119,396	-	119,396
Interest	14,609	-	14,609
Fines and forfeitures	87,447	-	87,447
Miscellaneous	12,907	-	12,907
	<u>1,524,889</u>	<u>16,695</u>	<u>1,541,584</u>
Total revenues			
EXPENDITURES			
Current:			
General government	268,019	-	268,019
Court	51,746	-	51,746
Public safety	666,292	-	666,292
Highways and streets	259,298	-	259,298
Public works	100,855	-	100,855
Culture and recreation	26,528	-	26,528
Miscellaneous	43,344	-	43,344
Debt service:			
Principal payments	39,727	13,653	53,380
Interest and fiscal charges	1,522	5,253	6,775
Capital outlay	125,261	-	125,261
	<u>1,582,592</u>	<u>18,906</u>	<u>1,601,498</u>
Total expenditures			
Deficiency of revenues over expenditures	<u>(57,703)</u>	<u>(2,211)</u>	<u>(59,914)</u>
OTHER FINANCING SOURCES			
Proceeds from issuance of debt	70,065	-	70,065
Sale of assets	6,500	-	6,500
	<u>76,565</u>	<u>-</u>	<u>76,565</u>
Total other financing sources			
Net changes in fund balances	18,862	(2,211)	16,651
Fund balances-beginning, restated	<u>1,176,408</u>	<u>6,868</u>	<u>1,183,276</u>
Fund balances-ending	<u>\$ 1,195,270</u>	<u>\$ 4,657</u>	<u>\$ 1,199,927</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF POPLARVILLE, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Net change in fund balances - total governmental funds (Exhibit D) **\$ 16,651**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 97,901	
Depreciation	(49,900)	
Excess of capital outlay over depreciation expense		48,001

In the statement of activities, a gain or loss on the retirement/sale of assets is based on the proceeds received and the net book value at the time of sale. The loss on disposal is calculated as follows:

Cost of assets disposed	\$ (147,319)	
Accumulated depreciation on assets disposed	94,202	
Loss on disposal of assets		(53,117)

Proceeds from new borrowings is revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.	(70,065)
--	----------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	53,380
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Compensated absences payable	995

Change in net assets of governmental activities (Exhibit B)	\$ (4,155)

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

**CITY OF POPLARVILLE, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2004**

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 100
Pooled cash and cash equivalents	209,188
Accounts receivable, net	126,002
Due from other governments	129,192
Prepaid expenses	2,029
Total current assets	<u>466,511</u>
Noncurrent assets:	
Other assets, net	5,197
Restricted assets:	
Cash and cash equivalents	121,048
Capital assets:	
Land and construction in progress	312,008
Buildings and improvements, net	5,636,636
Machinery and equipment, net	69,925
Vehicles under leases, net	14,433
Total noncurrent assets	<u>6,159,247</u>
Total assets	<u>6,625,758</u>
LIABILITIES	
Current liabilities:	
Accounts payable	36,910
Retainage payable	24,047
Accrued liabilities	10,881
Compensated absences payable	2,178
Due to other funds	252,503
Note payable	192,714
Capital lease	4,973
Payable from restricted assets:	
Customer deposits	43,180
Bond payable	32,436
Total current liabilities	<u>599,822</u>
Noncurrent liabilities:	
Advances from other funds	132,127
Note payable	2,670,281
Bond payable	432,507
Capital lease	7,308
Total noncurrent liabilities	<u>3,242,223</u>
Total liabilities	<u>3,842,045</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,692,783
Restricted, bond covenants	45,432
Unrestricted	45,498
Total net assets	<u>\$ 2,783,713</u>

The accompanying notes are an integral part of these financial statements.

CITY OF POPLARVILLE, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 813,160
Tap fees	8,884
Miscellaneous	<u>20,355</u>
Total operating revenues	<u>842,399</u>
OPERATING EXPENSES	
Personnel	154,221
Supplies	28,678
Materials	31,083
Utilities	53,375
Depreciation and amortization	231,849
Other operating expenses	<u>45,099</u>
Total operating expenses	<u>544,305</u>
Operating income	<u>298,094</u>
NONOPERATING REVENUES (EXPENSES)	
Retirement of assets	(37,433)
Interest earnings	302
Interest expense	<u>(158,136)</u>
Total nonoperating revenues (expenses)	<u>(195,267)</u>
Income before capital contributions	102,827
Capital contributions	<u>129,192</u>
Change in net assets	232,019
Total net assets-beginning, restated	<u>2,551,694</u>
Total net assets-ending	<u><u>\$ 2,783,713</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF POPLARVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 827,556
Payments to suppliers and employees	(316,363)
Net cash provided by operating activities	<u>511,193</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from interfund loans	233,281
Repayment of interfund loans	(20,355)
Net cash provided by noncapital financing activities	<u>212,926</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets	(232,148)
Principal paid on capital debt	(218,292)
Interest paid on capital debt	(158,229)
Net cash used by capital and related financing activities	<u>(608,669)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Restricted customer deposits	2,135
Interest received	302
Net cash provided by investing activities	<u>2,437</u>
Net increase in cash and cash equivalents	117,887
Balances-beginning of the year	212,449
Balances-end of the year	<u><u>\$ 330,336</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:	
Unrestricted:	
Cash and cash equivalents	\$ 100
Pooled cash and cash equivalents	209,188
Restricted:	
Cash and cash equivalents	121,048
	<u><u>\$ 330,336</u></u>
SCHEDULE OF NONCASH CAPITAL AND FINANCING ACTIVITIES:	
Acquisition of truck through capital lease	<u><u>\$ 15,113</u></u>

**CITY OF POPLARVILLE, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	<u>Water and Sewer Fund</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 298,094
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	231,466
Amortization expense	383
Bad debt expense	1,484
Change in assets and liabilities:	
Accounts receivable	(16,327)
Accounts payable	(4,998)
Accrued liabilities	3,181
Compensated absences	(2,090)
	<hr/>
Net cash provided by operating activities	<u><u>\$ 511,193</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

The City of Poplarville, Mississippi (City), incorporated in 1876 under the laws of the State of Mississippi and situated in Pearl River County, operates under the Mayor-Board form of government and provides the following services as authorized by its charter: Public Safety (Police, Fire, and Inspection), Street Maintenance, Garbage Collection, Water and Sewer, Social and Recreational, Public Improvements, Planning and Zoning, and General Administrative Services.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2004.

II. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units.

III. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(A) Basis of Accounting

The City complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, and as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

(A) Basis of Accounting (Continued)

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers revenues to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Major revenue sources susceptible to accrual include: property taxes, franchise taxes, sales taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received by the City.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include personnel costs, administrative expenses, and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

(B) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund – The general fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund – The debt service fund accounts for the servicing of long-term general obligation debt and payment of related interest and agency fees.

Proprietary Funds

The City reports the following major proprietary fund:

Water and Sewer Fund – The water and sewer fund accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis be financed or recovered primarily through user charges.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

(C) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

V. Assets, Liabilities, and Net Assets or Equity

(A) Cash and Investments

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts held in demand deposits. For purposes of the statement of cash flows, short-term investments held in proprietary funds with a maturity date within three months of the date acquired by the City, if any, are considered to be cash equivalents.

State statutes authorize the City to invest in (1) direct obligations of the United States government to the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit when insured or secured by acceptable collateral and (3) obligations of the State of Mississippi; or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. Investments are recorded at cost, which approximates market value.

(B) Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods and other miscellaneous receivables/payables between funds. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. An allowance has been provided in the water and sewer enterprise fund for estimated uncollectible charges. The allowance is based on historical collection experience and other relevant circumstances.

(C) Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2004, are recorded as prepaid items.

(D) Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws. Restricted assets in the enterprise funds represent utility customer deposits subject to refund and amounts restricted per bond covenants.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Assets or Equity (Continued)

(E) Capital Assets

Capital assets, which include property, plant, equipment, net of depreciation, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City generally capitalizes assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest cost was capitalized during the current fiscal year.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25 – 50 years
Improvements	25 years
Utility system infrastructure	40 years
Machinery and equipment	10 – 25 years
Vehicles	10 – 25 years

(F) Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities and proprietary fund type statement of net assets. Bond issuance costs and bond premiums and discounts are capitalized and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

(G) Compensated Absences

The City's policy requires employees to use vacation time by the end of the next calendar year after the calendar year in which the leave was earned. All vacation not used within the aforementioned time frame is forfeited. Retiring and terminated employees are paid for all unused vacation. It is the City's policy that all unused sick leave is forfeited upon termination, retirement, or layoff. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. In the fund financial statements, a liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements or use of vacation time.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2004. The resulting liability is then increased to include social security and retirement contributions that the City is required to pay upon liquidation of the liability.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Assets or Equity (Continued)

(H) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(I) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

VI. Change in Accounting Principle and Restatement of Fund Equity

In 2004, the City adopted new accounting standards in order to comply with the following Governmental Accounting Standards Board Statements:

GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*

GASB Statement No. 37 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*

GASB Statement No. 38 – *Certain Financial Statement Note Disclosures*

GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. The new requirements represent significant changes in the financial reporting model used by state governments, including changes to reporting funds and financial statement formats. As a result, fund reclassifications and adjustments to the fund equities reported in the prior year financial statements were required. In addition, governments are also required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

Interpretation No. 6 clarifies the application of existing standards for modified accrual recognition of certain liabilities and expenditures in the governmental fund financial statements.

The provisions of these new standards have been incorporated into the financial statements and accompanying notes. Changes to previously reported fund equities were made primarily due to the implementation of the new standards.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

VI. Change in Accounting Principle and Restatement of Fund Equity (Continued)

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the City as they were previously reported.

	Equity, As Previously Reported	Implementation of New GASB Pronouncements	Prior Period Adjustments	Equity, As Restated
Government-wide Financial Statements:				
Governmental activities	\$ 1,145,418	\$ 1,090,448	\$ 37,856	\$ 2,273,722

See Note 17 for explanation of prior period adjustments.

NOTE 2: CASH AND INVESTMENTS

(A) Cash

A summary of cash as of September 30, 2004, follows:

Fund Type	Cash on Hand	Checking and Savings Accounts	Totals
Governmental Activities			
General Fund	\$ 600	\$ 335,281	\$ 335,881
Debt Service Fund	-	4,657	4,657
Total Governmental Funds	600	339,938	340,538
Business-type Activities			
Enterprise Fund:			
Water and Sewer Fund	100	330,236	330,336
Total cash and cash equivalents	\$ 700	\$ 670,174	\$ 670,874

The City maintained the following restricted assets as of September 30, 2004:

Business-type Activities:	
Cash and cash equivalents	
Restricted for utility customer deposits	\$ 43,180
Restricted per bond covenant	77,868
Total restricted assets	\$ 121,048

Mississippi statutes allow municipalities to select depositories on the basis of competitive bid. Depositories must be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in an amount equal to 105% of the uninsured deposit. The collateral is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code. Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 2: CASH AND INVESTMENTS (Continued)

(A) Cash (Continued)

In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

In accordance with GASB Statement No. 3, deposits are classified into Category 1 custodial risk. Items in this category are insured or registered, or are securities held by the City or by its agent in the City's name.

At September 30, 2004, deposits (including restricted deposits) are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 681,808	\$ 670,174

(B) Investments

Mississippi municipalities may invest surplus funds in certificates of deposit with qualified depositories and in bonds and direct obligations of the United States of America; or the State of Mississippi; or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court.

At September 30, 2004, the City held the following certificates of deposit with maturity dates of longer than three months:

	<u>10/1/2003</u>	<u>Purchases</u>	<u>Maturities</u>	<u>9/30/2004</u>
BankPlus, 1.19% interest, matured September 15, 2004	\$ -	\$ 200,000	\$ (200,000)	\$ -
BankPlus, 1.56% interest, matures March 15, 2005	-	400,000	-	400,000
First National Bank of Picayune, 1.62% interest, matured March 18, 2004	200,000	-	(200,000)	-
First National Bank of Picayune, 1.85% interest, matured August 19, 2004	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>
Totals	<u>\$ 400,000</u>	<u>\$ 600,000</u>	<u>\$ (600,000)</u>	<u>\$ 400,000</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 3: RECEIVABLES

Receivables at September 30, 2004 consist of the following:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	General Fund	Debt Service Fund	Water and Sewer Fund	Total
Property taxes	\$ 6,151	\$ -	\$ -	\$ 6,151
Sales tax	85,246	-	-	85,246
Franchise taxes	27,728	-	-	27,728
Accounts, gross	1,540	-	161,402	162,942
Interest	260	-	-	260
Due from other governments	-	-	129,192	129,192
Total receivables, gross	120,925	-	290,594	411,519
Less allowance for doubtful receivables	-	-	(35,400)	(35,400)
Total receivables, net	\$ 120,925	\$ -	\$ 255,194	\$ 376,119

(A) Property Taxes

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Pearl River County tax assessor from information extracted from the County assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1 and personal property taxes become a lien on March 1. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase. Taxes on real and personal property are levied by the Board at the first regular meeting in September. The City's tax assessment roll is then approved by the Board after a series of public hearings to receive citizens' objections. The City bills and collects the real and personal property taxes, and Pearl River County bills and collects auto ad valorem and mobile home taxes for the City. These taxes are remitted by the County monthly to the City. In addition, the County also remits to the City a prorata share of road and bridge taxes they collect.

In accordance with Mississippi Code of 1972, as amended for code section 27-39-321, the Board may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding three years. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation.

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2004, was 49 mills or \$49.00 per \$1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2004 have been provided below.

The assessed valuations of the City for the year ended September 30, 2004 are as follows:

Real property	\$ 6,842,443
Personal property	1,282,532
Public utilities	1,970,265
Automobiles and mobile home	<u>1,602,776</u>
Totals	<u>\$ 11,698,016</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 3: RECEIVABLES (Continued)

(A) Property Taxes (Continued)

The tax levies for the City for the years ended September 30, 2004, 2003, and 2002 are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Fund	47.00	46.00	48.00
Debt Service Fund	<u>2.00</u>	<u>2.00</u>	<u>3.00</u>
Total tax levy	<u><u>49.00</u></u>	<u><u>48.00</u></u>	<u><u>51.00</u></u>

(B) Sales Taxes

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Poplarville) back to the City monthly. Sales tax revenue reported in the general fund was \$498,015. Sales taxes receivable consists of taxes collected by the State for August and September 2004 not received by the City until October and November 2004.

NOTE 4: DUE FROM OTHER GOVERNMENTS

During 2004, one of the City's two water wells stopped operating. The City, after it was determined that the well could not be successfully repaired, began drilling a new well. Since the City was left with one operating well, it began work on the new well before securing funding for its construction. In August 2004, the City received approval from the United States Department of Agriculture (USDA) Rural Development for a grant in the amount of \$151,515 and a loan in the amount of \$185,185, payable over 35 years and accruing interest at 4.5% per annum, to pay for the construction of the new well. If the final cost of the well is less than the total \$336,700 grant/loan approval, the City will be reimbursed for their costs by 55% loan and 45% grant payments.

At September 30, 2004, the City has incurred \$287,093 of costs related to construction of the new well. The City has accrued 45% of these costs, \$129,192, as a receivable from the USDA. No liability for the loan has been recorded; however, the receipt of grant proceeds is dependent on acceptance of the loan as well. If the City did not request reimbursement for any well costs in excess of the \$287,093 already incurred, the loan payable by the City to USDA would total \$157,901.

CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 is as follows:

	Balance October 1, 2003	Additions	Disposals	Transfers	Balance September 30, 2004
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 467,803	\$ -	\$ (750)	\$ -	\$ 467,053
Total capital assets, not being depreciated	467,803	-	(750)	-	467,053
Capital assets, being depreciated:					
Buildings and improvements	525,460	22,636	-	-	548,096
Machinery and equipment	96,246	5,200	-	79,438	180,884
Vehicles	475,995	-	(146,569)	75,091	404,517
Equipment under lease	79,438	14,870	-	(79,438)	14,870
Vehicles under lease	94,241	55,195	-	(75,091)	74,345
Total capital assets, being depreciated	1,271,380	97,901	(146,569)	-	1,222,712
Less accumulated depreciation for:					
Buildings and improvements	(178,906)	(9,208)	-	-	(188,114)
Machinery and equipment	(41,491)	(9,186)	-	(12,030)	(62,707)
Vehicles	(201,773)	(27,244)	94,202	(14,513)	(149,328)
Equipment under lease	(12,030)	(357)	-	12,030	(357)
Vehicles under lease	(16,668)	(3,906)	-	14,513	(6,061)
Total accumulated depreciation	(450,868)	(49,901)	94,202	-	(406,567)
Total capital assets, being depreciated, net	820,512	48,000	(52,367)	-	816,145
Total governmental activities capital assets, net	\$ 1,288,315	\$ 48,000	\$ (53,117)	\$ -	\$ 1,283,198
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 24,915	\$ 10,000	\$ -	\$ -	\$ 34,915
Construction in progress	-	277,093	-	-	277,093
Total capital assets, not being depreciated	24,915	287,093	-	-	312,008
Capital assets, being depreciated:					
Buildings and improvements	9,392,742	-	(80,051)	-	9,312,691
Machinery and equipment	148,061	-	-	-	148,061
Vehicles under lease	-	15,113	-	-	15,113
Total capital assets, being depreciated	9,540,803	15,113	(80,051)	-	9,475,865
Less accumulated depreciation for:					
Buildings and improvements	(3,495,552)	(223,121)	42,618	-	(3,676,055)
Machinery and equipment	(70,471)	(7,665)	-	-	(78,136)
Vehicles under lease	-	(680)	-	-	(680)
Total accumulated depreciation	(3,566,023)	(231,466)	42,618	-	(3,754,871)
Total capital assets, being depreciated, net	5,974,780	(216,353)	(37,433)	-	5,720,994
Total business-type activities capital assets, net	\$ 5,999,695	\$ 70,740	\$ (37,433)	\$ -	\$ 6,033,002

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 5: CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 6,159
Public safety	31,244
Highways and streets	<u>12,498</u>
Total governmental activities depreciation expense	<u>\$ 49,901</u>
Business-type activities:	
Water and sewer	<u>\$ 231,466</u>

Construction in progress pertains to the construction of a new water well. Total construction in progress at September 30, 2004 is \$277,093 and includes amounts reported in accounts payable of \$30,898 and retainage payable of \$24,047. No interest costs have been capitalized in connection with the construction of the new well.

As further explained in Note 4, the City abandoned one of its two water wells during 2004. The original well was constructed in 1975 and cost \$51,515 and improvements were made to the well in 1998 at a cost of \$28,536 for a total cost of \$80,051. Accumulated depreciation on the two assets at the date of retirement totaled \$42,618, causing a loss on the retirement of the well of \$37,433.

NOTE 6: LONG-TERM DEBT

Changes in outstanding debt during the year ended September 30, 2004, are as follows:

	Balance October 1, 2003	Additions	Principal Payments/ Reductions	Balance September 30, 2004	Due within One Year
Governmental Activities					
Note	\$ 133,702	\$ -	\$ (13,653)	\$ 120,049	\$ 14,368
Capital leases	34,830	70,065	(39,727)	65,168	28,002
Compensated absences	29,334	4,506	-	33,840	5,499
Total governmental activities	<u>\$ 197,866</u>	<u>\$ 74,571</u>	<u>\$ (53,380)</u>	<u>\$ 219,057</u>	<u>\$ 47,869</u>
Business-type Activities					
Note	\$ 3,047,893	\$ -	\$ (184,898)	\$ 2,862,995	\$ 192,714
Bond	495,505	-	(30,562)	464,943	32,436
Capital lease	-	15,113	(2,832)	12,281	4,973
Compensated absences	4,268	-	(2,090)	2,178	2,178
Total business-type activities	<u>\$ 3,547,666</u>	<u>\$ 15,113</u>	<u>\$ (220,382)</u>	<u>\$ 3,342,397</u>	<u>\$ 232,301</u>

(A) Notes Payable

At September 30, 2004, the City's outstanding notes payable are described as follows:

	Date Issued	Maturity Date	Interest Rate	Original Amount	Balance September 30, 2004
Governmental Activities:					
State of Mississippi	1/17/1997	2/1/2012	4.00%	\$ 213,000	<u>\$ 120,049</u>
Business-type Activities:					
State of Mississippi, State Revolving Fund Loan	8/15/1996	4/15/2016	4.00%	4,151,089	<u>2,862,995</u>
Total notes payable at year-end					<u>\$ 2,983,044</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 6: LONG-TERM DEBT (Continued)

(A) Notes Payable (Continued)

Principal and interest maturities will be as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2005	\$ 14,368	\$ 4,538	\$ 192,714	\$ 124,892	\$ 336,512
2006	14,954	3,952	201,567	116,039	336,512
2007	15,563	3,343	210,827	106,779	336,512
2008	16,197	2,709	220,512	97,094	336,512
2009	16,857	2,049	230,643	86,963	336,512
2010 - 2014	42,110	2,063	1,322,227	265,803	1,632,203
2015 - 2016	-	-	484,505	16,704	501,209
Total	<u>\$ 120,049</u>	<u>\$ 18,654</u>	<u>\$ 2,862,995</u>	<u>\$ 814,274</u>	<u>\$ 3,815,972</u>

(B) Bond Payable

At September 30, 2004, the City's outstanding revenue bond payable is described as follows:

	Date of Issue	Original Issue	Final Maturity Date	Rates	Balance September 30, 2004
Business-Type Activities:					
Revenue bond:					
GMAC Commercial Mortgage	5/5/1981	\$ 883,000	9/30/2016	5.00%	<u>\$ 464,943</u>

The annual bonded debt service requirements to maturity for the revenue bond is as follows:

Year Ending September 30,	Business-Type Activities		Total Requirements
	Principal	Interest	
2005	\$ 32,436	\$ 22,752	\$ 55,188
2006	34,095	21,093	55,188
2007	35,839	19,349	55,188
2008	37,673	17,515	55,188
2009	39,601	15,587	55,188
2010-2014	230,548	45,392	275,940
2015-2016	54,751	1,799	56,550
Total	<u>\$ 464,943</u>	<u>\$ 143,487</u>	<u>\$ 608,430</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 6: LONG-TERM DEBT (Continued)

(B) Bond Payable (Continued)

The City's Water and Sewer Revenue Bond dated May 5, 1981, requires the establishment of certain funds (accounts) and periodic transfers of money to these funds as follows:

- (a) Operation and Maintenance Fund - Into which shall be deposited all revenues derived from water and sewer services to pay all expenses of the waterworks and sewer system.
- (b) Water and Sewer System Bond Cushion Fund - Into which there shall be deposited \$325 per month until the funds and investments shall equal \$40,000.
- (c) Waterworks and Sewer System Depreciation Fund - Into which shall be deposited \$75 per month until the funds and investments shall equal \$9,000.
- (d) Waterworks and Sewer System Contingent Fund - Into which shall be deposited \$50 per month until the funds and investments shall equal \$6,000.

These monies are not separate funds but are restricted accounts within the water and sewer fund.

At September 30, 2004, the balances in the restricted accounts required by the bond covenants are as follows:

	<u>Required Balance</u>	<u>Balance 9/30/04</u>	<u>(Under) Over Funded</u>
Bond cushion fund	\$ 40,000	\$ 62,868	\$ 22,868
Depreciation fund	6,000	6,000	-
Contingent fund	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Totals	<u>\$ 55,000</u>	<u>\$ 77,868</u>	<u>\$ 22,868</u>

(C) Capital Leases Payable

The City has entered into various lease agreements as lessee for financing the acquisition of heavy equipment, vehicles, and certain small equipment needs. Those lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The general capital lease obligations outstanding as of September 30, 2004 are as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Issue Date</u>	<u>Effective Interest Rate</u>	<u>Outstanding Present Value</u>
Governmental Activities				
2003 Ford Crown Victoria	\$ 19,149	07/12/08	4.04%	\$ 5,020
2004 Dodge Ram	15,113	02/10/04	3.04%	12,281
2004 Massey Ferguson tractor	14,870	02/17/04	2.80%	12,075
(2) 2004 Ford Crown Victoria's	<u>40,082</u>	05/21/04	2.79%	<u>35,792</u>
	<u>89,214</u>			<u>65,168</u>
Business-type Activities				
2004 Dodge Ram	<u>15,113</u>	02/10/04	3.04%	<u>12,281</u>
Total capital leases at year-end	<u>\$ 104,327</u>			<u>\$ 77,449</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 6: LONG-TERM DEBT (Continued)

(C) Capital Leases Payable (Continued)

The following is an analysis of property leased under capital leases as of September 30, 2004:

	<u>Cost</u>
Governmental Activities	
Vehicles	\$ 74,344
Machinery and equipment	<u>14,870</u>
	<u>89,214</u>
Business-type Activities	
Vehicles	<u>15,113</u>
Total	<u>\$ 104,327</u>

The following is a schedule of future minimum lease payments under capital leases and present value of net minimum payments at September 30, 2004:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2004	\$ 29,485	\$ 5,277
2005	24,394	5,277
2006	<u>13,650</u>	<u>2,199</u>
Total minimum lease payments	67,529	12,753
Less amount representing interest	<u>(2,361)</u>	<u>(472)</u>
Present value of minimum payments	<u>\$ 65,168</u>	<u>\$ 12,281</u>

(D) Legal Debt Margin

The City's legal debt limit for general obligation bonds is \$1,754,702, of which \$1,634,653 is available to the City for further borrowing.

NOTE 7: INTERFUND TRANSACTIONS

(A) Interfund Receivables and Payables

Interfund receivables and payables consisted of the following at September 30, 2004:

<u>Due From</u>	<u>Due To</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Governmental Activities:		
General	\$ -	\$ 252,503
Business-type Activities:		
Water and Sewer	<u>252,503</u>	<u>-</u>
Total	<u>\$ 252,503</u>	<u>\$ 252,503</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 7: INTERFUND TRANSACTIONS (Continued)

(A) Interfund Receivables and Payables (Continued)

	Advances From	
	Governmental Activities	Business-type Activities
	General Fund	Water and Sewer Fund
Advances To		
Governmental Activities:		
General	\$ -	\$ 132,127
Business-type Activities:		
Water and Sewer	132,127	-
Total	\$ 132,127	\$ 132,127

As further explained in Note 4, the City began construction on a new water well in 2004. Due to the critical need for this new well, the City started construction prior to obtaining financing. The Board authorized for construction to begin and for the General Fund to pay for construction costs until financing could be obtained. At September 30, 2004, the General Fund had paid \$232,148 on behalf of the Water and Sewer Fund for well construction. With approval from the USDA on a grant/loan package as described in Note 4, the Water and Sewer Fund will repay \$232,148 to the General Fund in 2005.

Also, the City has currently assessed a \$1.50 per month surcharge on utility bills to repay other amounts owed by the Water and Sewer Fund to the General Fund. Based on the number of utility customers, approximately \$20,000 per year is collected by the surcharge and repaid to the General Fund. Accordingly, the amount of surcharge collected in 2004, \$20,355, is also included in due to general fund since it should also be repaid within twelve months.

NOTE 8: RESTRICTED NET ASSETS

The City's bond covenants, as more fully explained at Note 6, require certain restricted deposits to be maintained. Such restricted assets exceeding recorded liabilities against such restricted assets represent restrictions of the water and sewer fund's net assets.

The restricted portions are as follows:

Restricted Assets	
Customer deposits	\$ 43,180
Revenue bond cushion fund account	62,868
Revenue bond depreciation account	9,000
Revenue bond contingent account	<u>6,000</u>
Total restricted accounts	<u>121,048</u>
Liabilities Payable From Restricted Assets	
Customer deposits	43,180
Revenue bonds principal (current portion)	<u>32,436</u>
Total liabilities payable from restricted assets	<u>75,616</u>
Restricted net assets	<u>\$ 45,432</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 9: SEGMENT INFORMATION

The City maintains one proprietary fund, a water and sewer operation. The water and sewer fund provides and accounts for the provision of basic utility services to all citizens. Selected segment information for the year ended September 30, 2004, is as follows:

	Water and Sewer
Operating revenue	\$ 842,399
Depreciation and amortization	231,849
Operating income	298,094
Revenue from water service	504,120
Revenue from sewer service	317,924
Properties connected with water lines	1,164
Properties connected with sewer lines	889
Metered customers - water	1,147
Metered customers - sewer	870
Unmetered customers - water	17
Unmetered customers - sewer	19

NOTE 10: JOINT VENTURE

The Poplarville – Pearl River County Airport is a joint venture between the City and Pearl River County. The City and Pearl River County jointly lease the land and own the buildings of the Poplarville - Pearl River County Airport. The City provides \$3,300 each year to the Airport (the City also provides liability insurance and utilities) and the County provides \$5,000. Additionally, during 2004, the City applied for a grant from the State of Mississippi on behalf of the Airport in the amount of \$20,430. The City recorded the receipt of the grant as intergovernmental revenues and its submission of the grant proceeds to the Airport as miscellaneous expenditures. Any potential future financial benefit or burden to the City resulting from the airport is not determinable at this time. The Poplarville-Pearl River County Airport does not issue financial statements at this time.

NOTE 11: EXCLUDED ENTITY

The Poplarville Public Library Branch of the Pearl River County Library System is excluded from the financial reporting entity. The City has no significant influence over the management, budget, or policies of the library. The City owns the Poplarville Public Library land and building which are recorded in the City's general fixed asset account group as follows: Land, \$40,000; Building and improvements, \$250,530. The City also provided \$21,000 in support during the year ended September 30, 2004, and pays the liability insurance policy for the library. The Pearl River County Library System's financial information is reported independently.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 12: RETIREMENT PLANS

(A) Public Employees' Retirement System

The City participates in a retirement system administered by the Public Employees' Retirement System of Mississippi (PERS). The system is a defined benefit plan and includes a multi-employer, cost-sharing pension plan as described below:

Plan Description and Provisions

Substantially all of the City's full-time employees participate in PERS, a multi-employer, cost-sharing, defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

Description of Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary. In the year ended September 30, 2004, City employees contributed \$57,664. The City is required to contribute at an actuarially determined rate, currently 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ending September 30, 2004, 2003, and 2002, were \$77,526, \$70,842, and \$68,263, respectively, equal to the required contributions for each year.

(B) Deferred Compensation Plan

The City, through PERS, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribes that the City does not own the amounts deferred by employees, including the related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements.

NOTE 13: COMMITMENTS AND CONTINGENCIES

(A) Litigation

The City is party to various legal proceedings which normally occur in governmental operations. Although the outcome of these proceedings is not presently determinable, in the opinion of the City's legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

(B) Grants and Awards

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally federal and state governments. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds. The City does not believe any contingent liabilities are material.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 13: COMMITMENTS AND CONTINGENCIES (Continued)

(C) City Wastewater Treatment Facility

The City's Water and Sewer Fund operates a wastewater treatment facility that is regulated by the Environmental Protection Agency (EPA) and the Mississippi Department of Environmental Quality (DEQ). Changes in the EPA or DEQ laws and regulations could have a direct effect on the Water and Sewer Fund and the City. The possibility of additional liability related to changes in these laws and regulations exists. However, this liability cannot be determined at this time.

(D) Water Tank Maintenance Contract

The City entered into a contract with Tank Pro, Inc. in 2001 for the annual inspection, maintenance, and repair of the City's water tank. The City paid Tank Pro, Inc. \$6,100 in the year ended September 30, 2004. Annual payments are required by the City in the amount of \$6,100 for 2005, \$6,558 for 2006 through 2008, \$7,050 for 2009 through 2011, and a final payment of \$7,580 in 2012. The City has the option to cancel the agreement provided that they give Tank Pro, Inc. one year's advance notice.

(E) Construction Contracts

The City entered into an engineering contract totaling \$36,000 and a construction contract totaling \$273,777 for the construction of a new water well which was not complete at year-end. At September 30, 2004, the City only owed the engineering firm for minimal incidental charges and had \$33,305 of construction costs remaining. Also, the City received approval from the USDA for a grant/loan package which will pay for construction of the new well. See Note 4 for further explanation.

NOTE 14: RISK MANAGEMENT

The City is covered for significant losses through commercial insurance carriers except for the following, which are covered through self-insurance risk pools.

(A) Self-Insurance – Workers Compensation Fund

The City is one of approximately 250 members in the Mississippi Municipal Workers' Compensation Group, Inc. This non-profit corporation is a self-insurance worker's compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection up to \$1,000,000. Members are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

(B) Self-Insurance – Liability Fund

The City is one of approximately 250 members in the Mississippi Municipal Liability Plan. The Plan is a private non-profit corporation organized under the laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members up to \$500,000 and \$50,000 per occurrence, respectively. The plan is totally self-insured with claims and expenses paid out of the premiums and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any cannot be determined.

NOTE 15: UNEMPLOYMENT COMPENSATION FUND

In lieu of making payments to the Mississippi Employment Security Commission (MESC), the City maintains a revolving fund for unemployment benefits with a balance equal to 2% of the first \$6,000 of covered employee wages paid in the preceding calendar year. At September 30, 2004, the required balance in this account was \$4,559. The actual balance at September 30, 2004, was \$5,799.

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 16: SUBSEQUENT EVENTS

Lease Purchases

The Board authorized the purchase of two 2005 GMC Sierra trucks for the streets department through capital leases. The City received the two trucks on December 16, 2004. The trucks, which cost \$12,129 and \$14,624 respectively, were acquired through lease purchase agreements with Hancock Bank. The leases mature in 36 months, incur interest at 3.03% per annum, require monthly payments of \$353 and \$425 respectively, and each has a bargain purchase option of \$1 at the end of the lease term.

The Board also authorized the purchase of a 2005 Ford Crown Victoria police car through a capital lease. As of January 19, 2005, the City had not yet received the vehicle. The lease purchase agreement with Hancock Bank is in the amount of \$20,425. Once the vehicle is received, it will require 36 monthly payments of \$594, incur interest at 3.03% per annum, and has a bargain purchase option of \$1 at the end of the lease term.

NOTE 17: PRIOR PERIOD ADJUSTMENTS

The effects of the prior period adjustments on fund balances as of October 1, 2003 are as follows:

	Governmental Funds			Proprietary Fund	
	General Fund	Debt Service	Trust & Agency	Water and Sewer Fund	Total
Fund balance/retained earnings, September 30, 2003, as originally stated	\$1,133,164	\$ 6,868	\$ 5,388	\$ 388,561	\$ 1,533,981
Understatement of compensated absences	(6,951)	-	-	-	(6,951)
Understatement of sales tax receivable	44,807	-	-	-	44,807
Understatement of accounts receivable	-	-	-	27,801	27,801
Reclassification of agency funds	5,388	-	(5,388)	-	-
Reclassification of contributed capital (occurred prior to 2003)	-	-	-	2,135,332	2,135,332
Total prior period adjustments	43,244	-	(5,388)	2,163,133	2,200,989
Fund balance/retained earnings, September 30, 2003, as restated	<u>\$1,176,408</u>	<u>\$ 6,868</u>	<u>\$ -</u>	<u>\$ 2,551,694</u>	<u>3,734,970</u>
Implementation of new GASB pronouncements (see Note 1)				1,090,446	1,090,446
Net assets, September 30, 2003, as restated				<u>\$ 2,273,722</u>	<u>\$ 4,825,416</u>

**CITY OF POPLARVILLE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 17: PRIOR PERIOD ADJUSTMENTS (Continued)

The effects of the prior period adjustments on the excess (deficiency) of revenues and other financing sources over expenditures and other uses of the governmental funds for the year ended September 30, 2003 are as follows:

	Governmental Funds			
	General Fund	Debt Service	Trust & Agency	Total
Excess (deficiency) of revenues and other sources over expenditures and other uses, as originally stated	\$ 58,788	\$ (3,160)	\$ -	\$ 55,628
Adjustment for understatement of sales tax revenues	44,807	-	-	44,807
Adjustment for understatement of compensated absences	(6,951)	-	-	(6,951)
Total prior period adjustments	37,856	-	-	37,856
Excess (deficiency) of revenues and other sources over expenditures and other uses, as restated	\$ 96,644	\$ (3,160)	\$ -	\$ 93,484
			Proprietary Fund	
			Water and Sewer Fund	
Income from operations, as originally stated			\$ 133,885	
Understatement of utility revenues			27,801	
Income from operations, as restated			161,686	
Total nonoperating revenues (expenses), as originally stated			(166,232)	
Net loss, as restated			\$ (4,546)	

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF POPLARVILLE, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 563,925	\$ 563,925	\$ 546,671	\$ (17,254)
Sales	455,405	455,405	510,924	55,519
Licenses, permits, and franchise fees	127,475	127,475	141,716	14,241
Intergovernmental	43,429	59,019	78,017	18,998
Charges for services	110,500	110,500	119,396	8,896
Interest	17,000	17,000	16,498	(502)
Fines and forfeitures	60,000	60,000	88,246	28,246
Miscellaneous	22,669	22,669	13,988	(8,681)
Total revenues	<u>1,400,403</u>	<u>1,415,993</u>	<u>1,515,456</u>	<u>99,463</u>
EXPENDITURES				
Current:				
General government				
Personnel services	177,590	177,770	168,149	9,621
Supplies	14,500	16,500	15,315	1,185
Other services and charges	65,971	72,571	85,080	(12,509)
Capital outlay	-	7,861	215	7,646
Total general government	<u>258,061</u>	<u>274,702</u>	<u>268,759</u>	<u>5,943</u>
Court				
Personnel services	45,360	45,394	45,660	(266)
Supplies	1,400	1,400	782	618
Other services and charges	2,910	5,074	5,063	11
Capital outlay	600	600	578	22
Total court	<u>50,270</u>	<u>52,468</u>	<u>52,083</u>	<u>385</u>
Public safety				
Police				
Personnel services	403,009	414,194	417,436	(3,242)
Supplies	34,300	42,400	39,469	2,931
Other services and charges	42,590	45,470	38,651	6,819
Capital outlay	43,000	43,000	45,035	(2,035)
Fire				
Personnel services	129,177	132,104	132,856	(752)
Supplies	15,450	15,450	8,290	7,160
Other services and charges	28,040	46,350	31,531	14,819
Capital outlay	6,000	24,710	39,270	(14,560)
Total public safety	<u>701,566</u>	<u>763,678</u>	<u>752,538</u>	<u>11,140</u>
Highways and streets				
Personnel services	143,948	155,284	156,180	(896)
Supplies	30,550	38,200	38,155	45
Other services and charges	58,050	62,900	64,963	(2,063)
Capital outlay	45,000	51,500	38,456	13,044
Total public safety	<u>277,548</u>	<u>307,884</u>	<u>297,754</u>	<u>10,130</u>
Public works				
Other services and charges	<u>100,200</u>	<u>100,860</u>	<u>100,855</u>	<u>5</u>
Culture and recreation				
Other services and charges	<u>28,400</u>	<u>28,400</u>	<u>28,235</u>	<u>165</u>

CITY OF POPLARVILLE, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
EXPENDITURES, Continued				
Miscellaneous				
Cemetery				
Other services and charges	18,000	18,000	17,850	150
Airport				
Other services and charges	4,610	5,046	5,064	(18)
Total miscellaneous	<u>22,610</u>	<u>23,046</u>	<u>22,914</u>	<u>132</u>
Debt service	<u>46,748</u>	<u>46,748</u>	<u>41,249</u>	<u>5,499</u>
Total expenditures	<u>1,485,403</u>	<u>1,597,786</u>	<u>1,564,387</u>	<u>33,399</u>
deficiency of revenues over expenditures	<u>(85,000)</u>	<u>(181,793)</u>	<u>(48,931)</u>	<u>132,862</u>
OTHER FINANCING SOURCES (USES)				
Capital leases	85,000	85,000	70,065	(14,935)
Sale of assets	-	-	6,500	6,500
Repayment of interfund loan	-	-	20,355	20,355
Interfund loan	-	(319,777)	(232,148)	87,629
Total other financing sources (uses)	<u>85,000</u>	<u>(234,777)</u>	<u>(135,228)</u>	<u>99,549</u>
Net change in fund balances	-	(416,570)	(184,159)	<u>\$ 232,411</u>
Fund balances-beginning, budget basis	<u>811,050</u>	<u>903,797</u>	<u>903,797</u>	
Fund balances-ending, budget basis	<u>\$ 811,050</u>	<u>\$ 487,227</u>	719,638	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of the year.			272,609	
Change in taxes receivable			4,467	
Change in accounts receivable			(1,081)	
Change in franchise fee receivable			1,214	
Change in interest receivable			(1,889)	
Change in sales tax receivable			(12,909)	
Change in interfund loan			211,793	
Change in prepaid expenses			1,123	
Change in accrued expenses			(1,147)	
Change in compensated absences			<u>1,452</u>	
Fund balances-ending, GAAP basis			<u>\$ 1,195,270</u>	

See note to budgetary comparison schedule.

CITY OF POPLARVILLE, MISSISSIPPI
NOTE TO BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE A: BUDGETARY DATA

The procedures used by the City in establishing the budgetary data are as follows:

1. The City Clerk's office prepares estimates of available revenue.
2. Department directors submit proposed expenditure budgets to the City Clerk by June 1 each year.
3. The Mayor and the department directors review expenditure budgets and necessary revisions are made.
4. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the Mayor.
5. The City Clerk submits the proposed budget to the Board by August 1.
6. Public hearings are conducted to obtain taxpayer comments.
7. The final budget is approved by September 15 and must be published in a local newspaper on or before September 30.
8. The budget is formally amended at the first meeting in July each year, if necessary. However, budget revisions are made throughout the year (prior to July) as reallocations of funds are necessary, a budget deficit is indicated, or circumstances change which dictate the need for a budget amendment.
9. Formal budgetary integration is employed as a management control device for all governmental and proprietary fund types. Budgets for the Governmental Funds are adopted in accordance with provisions of the State Auditor's Office and not on a basis consistent with accounting principles generally accepted in the United States of America. For budgetary purposes, certain revenues from property taxes, interest on investments, and certain other sources are recognized when received in cash and unexpended appropriations lapse thirty days after the end of the fiscal year.

The legal level of control for all budgets adopted is at the fund level with the exception of the General Fund, which is appropriated at the department level. Administrative control for all budgets is maintained through the establishment of more detailed line-item budgets.

The City Clerk's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Board approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Clerk's office through the use of budget to actual reports. Any purchase requisition that will cause a line item to exceed its budget will be disallowed by the City Clerk. The department head will then be required to make an inter-department budget transfer or request a budget amendment.

The Budgetary Comparison Schedule presents comparisons of legally adopted budgets with actual data on the budgetary basis. Since accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of timing differences in the net change in fund balance for the year ended September 30, 2004 is presented at the end of the Budgetary Comparison Schedule.

SUPPLEMENTARY INFORMATION

CITY OF POPLARVILLE, MISSISSIPPI
SCHEDULE RECONCILING ORIGINAL AD VALOREM TAX ROLLS
TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Assessed Value	Tax
ADJUSTED ASSESSED VALUATION		
Realty	\$ 6,842,443	\$ 335,280
Personal - other than auto	1,282,532	62,844
Public utilities	1,970,265	96,543
Personal - auto and mobile home	1,602,776	78,355
	<u>11,698,016</u>	<u>573,022</u>
Total City of Poplarville at 49 mills		
	1,295,939	63,501
Less: Homestead exemption allowed		
	<u>\$ 10,402,077</u>	<u>509,521</u>
Add: Actual homestead reimbursement		44,123
County road taxes		20,835
Prior year tax collections		9,441
Penalties and interest on delinquent taxes		9,257
In lieu of taxes		4,208
Adjustments to roll		345
Deduct: County fees withheld		(3,918)
Adjustments to roll		(5,061)
Sold to the State		(147)
Unpaid realty, personal and utility taxes		(18,646)
		<u>(18,646)</u>
Total to be accounted for		<u>\$ 569,958</u>

COLLECTIONS

	Taxes	Homestead Reimbursement	Total
Collections allocated to fund			
General fund	\$ 507,015	\$ 44,123	\$ 551,138
Debt service	16,694	-	16,694
	<u>\$ 523,709</u>	<u>\$ 44,123</u>	567,832
		Unaccounted for	<u>2,126</u>
			<u>\$ 569,958</u>

See independent auditors' report.

**CITY OF POPLARVILLE, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2004**

<u>Official's Title</u>	<u>Name</u>	<u>Surety Company</u>	<u>Coverage Amount</u>
City Clerk and Tax Collector	Jody Stuart	USF&G	\$ 85,000
Chief of Police	Charles Fazende	USF&G	50,000
Blanket Bond for Police Officers		Anderson Walker	10,000
Blanket Bond for Deputy Clerks and Court Clerk		CNA Surety	20,000
Blanket Bond for Alderpersons		USF&G	20,000

See independent auditors' report.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

January 19, 2005

Honorable Mayor and Members
of the Board of Alderpersons
Poplarville, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Poplarville, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the City of Poplarville, Mississippi's basic financial statements and have issued our report thereon dated January 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Poplarville, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Poplarville, Mississippi's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Court Fines

The City is currently unable to produce an accurate report detailing the uncollected court fine balance at September 30, 2004. Without an accurate subsidiary ledger showing outstanding court fines, the City is unable to record a receivable and related allowance. Also, without accurate receivable reports, the City cannot easily identify overdue fines and may not be pursuing collection of those fines.

We were informed that the inaccurate reports produced were the result of software problems and limitations. The City has notified the software vendor of the problems that are occurring and hopes to have the problems corrected in the near future. We recommend that the City continue its work with the software vendor to alleviate the reporting problems.


A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

Honorable Mayor and Members
of the Board of Alderpersons
Poplarville, Mississippi
January 19, 2005

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Poplarville, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters that we have reported to management of the City of Poplarville, Mississippi, in a separate letter dated January 19, 2005.

This report is intended solely for the information and use of the management, Mayor, Board of Alderpersons, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH MISSISSIPPI STATE LAWS AND REGULATIONS**

January 19, 2005

Honorable Mayor and Members
of the Board of Alderpersons
Poplarville, Mississippi

We have audited the financial statements of the City of Poplarville as of and for the year ended September 30, 2004, and have issued our report thereon dated January 19, 2005. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the basic financial statements disclosed no material instances of noncompliance with state laws and regulations.

This report is intended for the information of the City's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



January 19, 2005

Honorable Mayor Billy Spiers and
Members of Board of Alderpersons
City of Poplarville, Mississippi

In planning and performing our audit of the financial statements of the City of Poplarville, Mississippi for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Poplarville's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described is not believed to be a material weakness.

This report is intended solely for the information and use of the Mayor and Board of Alderpersons, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Alexander, Van Loon, Sloan, Levens & Favre
ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

Reportable Conditions

Collection of Court Fines

The City is currently unable to produce an accurate report showing the uncollected court fines as of September 30, 2004. Without an accurate subsidiary ledger showing outstanding fines, the City is unable to record court fines receivable and an allowance for uncollectible fines as required by new accounting pronouncements. It is expected that the net unrecorded receivable would not be material to the City's financial statements taken as a whole. However, we are concerned over the lack of control of court fines.

With an accurate receivable report, the City would be able to track outstanding fines and would also be able to reconcile fines collected against payments posted to the outstanding fines. This would enable the City to ensure that all monies collected at the offsite location of the court has been turned over to City Hall each day for deposit.

While reviewing the controls in place at the court we noted several other deficiencies which apply to collections at locations other than the court as well. We recommend that a sign be posted wherever the City collects money, stating, **"A receipt should be provided for all payments made. Please contact the City Clerk if you are not provided with a receipt."** Also, the City should post a sign stating, **"The City will not accept cash payments through the mail, only personal checks or money orders."** That would provide the customer/defendant with some form of verification for payment without having to mail them a receipt.

We recommend that the City should consider hiring a court consultant to do a thorough review of all court policies and procedures. For most cities, the court system is like a "foreign entity" of which management has little understanding. Some of our other city clients have experienced positive results from engaging such a consultant. Typically, it helps strengthen the controls over the court system, which in turn, leads to increased revenues to the city. Let us know if you would like for us to recommend a court consultant to work with your City.

Other Comments and Recommendations

Allocation of tax levy

As noted in prior years, the City does not allocate automobile ad valorem taxes collected and remitted by the County and homestead exemption reimbursements received from the State between the general fund and the debt service fund. The City, however, does allocate real and personal property taxes between those funds based on the adopted millage rates.

We suggest that the City begin to allocate automobile taxes and homestead exemption during the 2005 fiscal year. Also, when preparing the 2006 municipal budget, the City should take into account the movement of tax monies collected from the general fund to the debt service fund and should adjust the millage rates for the two funds accordingly.

Oversight Responsibility for the Airport

As noted in the prior year, the Poplarville-Pearl River County Airport was created by a joint resolution of the City of Poplarville and Pearl River County on August 1, 1968. While the Airport Board operates independently of the City and the County, each continues to have oversight responsibility related to the Airport. During 2003, the Airport applied for and received a grant in the amount of \$183,870 from the Federal Aviation Administration (FAA) for improvements to the runway. The City and County were each required to sign the grant application by the FAA as co-applicants. During 2004, the Airport applied for and received another grant from the FAA in the amount of \$203,300 for expansion of the runway. The City and County were again required to sign the grant application as co-applicants.

While the City did not directly receive any money from the FAA and it is not reporting any federal expenditures related to the Airport grant, we believe the City, as a co-applicant and most likely the fiscal agent for the grant, has some responsibility to ensure that grant proceeds are spent properly by the Airport. We believe, at a minimum, that the City should require the Airport to adopt an internal control structure that would prevent mishandling of the federal money and should require the Airport to provide the City with all requests sent to the FAA for reimbursement along with any supporting documentation. This would allow the City and County to adequately monitor that the Airport's use of the grant funds were expended in accordance with the grant requirements and would minimize the potential that the FAA would require the City and County to return any questioned costs of the grant awarded.

Oversight Responsibility for the Airport (Continued)

Also, during 2004, the Airport applied for and received a \$20,430 grant from the Mississippi Aeronautics Commission to pay for various improvements. The Aeronautics Commission incorrectly identified the City of Poplarville as the grantee and sent the money directly to the City. The City notified the Aeronautics Commission of the error but was told that the grant had already been awarded and if the City did not receive the money, there would be no money for the Airport this year. The City handed over both checks received from the Aeronautics Commission directly to the Airport manager and he deposited the funds into the Airport's bank account. Since the grant was awarded directly to the City, the grant revenues were reported on the City's 2004 financial statements and the disbursement of the funds to the Airport was shown as an additional allocation to the Airport.

It is also our understanding that the Airport does not currently prepare financial statements. We believe that, with the increased activity at the Airport, it is imperative that there be accountability to the City and County. At a minimum, the Airport Board, on at least a quarterly basis, should provide budget to actual reports to the City and County.

Review of Bank Reconciliations

Currently, the City employs a local accounting firm to prepare monthly bank reconciliations for the City and to make some adjustments to the general ledger. Through inquiry of City personnel, we learned that no final review of the work done by the local accountant was being performed.

We recommend that the City appoint an employee to review the reconciliations and adjustments prepared by the accountant each month. This would enable the City to identify any errors or omissions made by the accountant on a timely basis and would enable any problems with the bank accounts to be rectified within the allotted time by the bank.

Interfund Receivables and Payables

As noted in the prior year, the balance owed by the water and sewer fund to the general fund is significant at September 30, 2004, \$384,630. Of this amount, \$232,503 was loaned during 2004 by the general fund to the water and sewer fund to pay for construction of the new water well. This amount should be repaid in 2005, when the City received its grant/loan money approved by the USDA.

Interfund Receivables and Payables (Continued)

The remaining balance, \$152,127, is currently being repaid through a surcharge of \$1.50 on each utility bill. This surcharge produces approximately \$20,000 per year that the water and sewer fund is able to repay to the general fund. At the current rate, it will take approximately 8 years for these loans to be repaid in full.

We recommend that the City review the current water and sewer billing rates to determine if the current surcharge being billed to customers can be increased to expedite pay off of the interfund loan. As an alternative, the Board could classify the original loan made by the general fund to the water and sewer fund as a transfer, which would relieve the water and sewer fund of repayment obligations. To accomplish this, the Board would need to pass a resolution, to be included in the Board minutes, reclassifying the original loan as a transfer. Also, we recommend that the City attempt to keep interfund borrowing to a minimum in the future.

Ticket Withdrawal Fee

During 2004, the City implemented a new policy, which required a defendant to pay the City a \$15 fee before the writing officer could sign an affidavit to withdraw the ticket. We suggest that the City attorney consult with the State Attorney General or State Auditor's Office about the legality of such a fee. As the City policy now stands, the City keeps the \$15 fee as an administrative charge and does not remit any money to the State.

We are also concerned that the withdrawal fee creates an opportunity for officers to charge their own fee before withdrawing a ticket since they are usually responsible for making contact with the defendant and informing them of their decision to withdraw the ticket (pending payment of the withdrawal fee). The City, therefore, currently has no means to deter officers from accepting cash payments or other benefits in lieu of their withdrawal of tickets. Accordingly, in the event that the legality of such a fee is upheld, we recommend that the City appoint an employee, other than a police officer, to notify defendants when a ticket has been withdrawn.